

1 THOMAS S. MCCONVILLE (STATE BAR NO. 155905)  
tmconville@orrick.com

2 RIC T. FUKUSHIMA (STATE BAR NO. 272747)  
rfukushima@orrick.com

3 ORRICK, HERRINGTON & SUTCLIFFE LLP  
2050 Main Street  
4 Suite 1100  
Irvine, CA 92614  
5 Telephone: +1-949-567-6700  
Facsimile: +1-949-567-6710

6 ROBERT M. ISACKSON (*pro hac vice*)

7 risackson@orrick.com

NICHOLAS H. LAM (*pro hac vice*)

8 nlam@orrick.com

ORRICK, HERRINGTON & SUTCLIFFE LLP

9 51 West 52nd Street

New York, NY 10019-6142

10 Telephone: +1-212-506-5000

Facsimile: +1-212-506-5151

11 Attorneys for Defendants

12 MICRODYNAMICS CORPORATION

AND MICRODYNAMICS GROUP, INC.

14 UNITED STATES DISTRICT COURT

15 CENTRAL DISTRICT OF CALIFORNIA

16 SOUTHERN DIVISION

18 SECURED MAIL SOLUTIONS,  
19 LLC,

20 Plaintiff,

21 v.

22 R.R. DONNELLEY & SONS  
COMPANY, MICRODYNAMICS  
CORPORATION, AND  
23 MICRODYNAMICS INC.

24 Defendants.

Case No. SACV12-01119 DOC  
(MLGx)

**DEFENDANT MICRODYNAMICS'  
NOTICE OF MOTION AND  
MOTION FOR SANCTIONS  
UNDER FEDERAL RULES OF  
CIVIL PROCEDURE, RULE 11**

Date: October 8, 2012

Time: 8:30 a.m.

Department: 9-D

1 TO ALL PARTIES AND THEIR ATTORNEYS OF RECORD:

2 PLEASE TAKE NOTICE that on October 8, 2012 at 8:30 a.m., or as soon  
3 thereafter as this motion may be heard in Department 9-D of the United States  
4 District Court, located at 411 West Fourth Street, Santa Ana, California,  
5 Defendants Microdynamics Corporation and Microdynamics Group, Inc. (together,  
6 “Microdynamics”), by and through its counsel, will move this Court, pursuant to  
7 Rule 11 of the Federal Rules of Civil Procedure, for an order awarding sanctions  
8 against Plaintiff Secured Mail Solutions, LLC (“SMS”) and its counsel for the  
9 improper filing of a baseless Complaint and for failing to conduct a reasonable and  
10 competent pre-suit investigation in doing so.

11 This motion is based on this Notice of Motion and Motion, the attached  
12 Memorandum of Points and Authorities, the attached Declaration of Charles  
13 Wilson in support thereof, the pleadings on file, oral argument of counsel, and such  
14 other materials and arguments as may be presented in connection with the hearing  
15 on this motion.

16  
17  
18 Dated: September 7, 2012

Orrick, Herrington & Sutcliffe LLP

19 By: /s/ Ric T. Fukushima  
20 RIC T. FUKUSHIMA  
21 Attorneys for Defendants  
22 Microdynamics Corporation and  
23 Microdynamics Group, Inc.  
24  
25  
26  
27  
28

## TABLE OF CONTENTS

	<b>Page</b>
I. INTRODUCTION .....	1
II. BACKGROUND .....	3
A. The Asserted Patents.....	4
B. Microdynamics' Business .....	6
III. RULE 11 LAW AS APPLIED IN PATENT ACTIONS .....	10
IV. ARGUMENT .....	11
A. SMS and Mr. Fitzsimmons Failed To Meet Their Rule 11 Obligations .....	11
1. SMS' Complaint is Baseless .....	11
a. Microdynamics Does Not Provide Verification Data .....	12
b. Other Limitations are Mail Carrier Actions or Not Performed At All .....	13
c. The Mail Carriers Are Persons That Must Be Joined if Possible .....	13
2. SMS And Its Counsel Failed to Conduct a Reasonable and Competent Pre-Suit Investigation .....	15
B. Monetary Sanctions Should Be Imposed.....	17
V. CONCLUSION .....	19

**TABLE OF AUTHORITIES**

**Page(s)**

**FEDERAL CASES**

<i>Akamai Techs., Inc. v. Limelight Networks, Inc.</i> , No. 2009-1372, _ F.3d _, 2012 WL 3764695 (Fed. Cir. Aug. 31, 2012) ....	12, 13
<i>BMC Resources, Inc. v. Paymentech, L.P.</i> , 498 F.3d 1373 (Fed. Cir. 2007) .....	12, 13
<i>Christian v. Mattel, Inc.</i> , 286 F.3d 1118 (9th Cir. 2002) .....	10, 11
<i>Clark v. The Walt Disney Co.</i> , 748 F. Supp.2d 792 (S.D. Oh. 2010) .....	16
<i>Dawavendewa v. Salt River Project Agricultural Improvement &amp; Power Dist.</i> , 276 F.3d 1150 (9th Cir. 2001) .....	13, 14
<i>E.E.O.C. v. Peabody Western Coal Co.</i> , 610 F.3d 1070 (9th Cir. 2010) .....	14
<i>Eon-Net LP v. Flagstar Bancorp.</i> , 653 F.3d 1314 (Fed. Cir. 2011) .....	10, 15, 17
<i>ICU Med., Inc. v. Alaris Med. Sys., Inc.</i> , 2007 U.S. Dist. LEXIS 34467 (C.D. Cal. Apr. 16, 2007) .....	11, 15
<i>Judin v. United States</i> , 110 F.3d 780 (Fed. Cir. 1997) .....	15
<i>Markman v. Westview Instruments, Inc.</i> , 517 U.S. 370 (1996) .....	16
<i>Marshburn v. Postmaster General</i> , 678 F. Supp. 1182 (D. Md. 1988) .....	14
<i>Refac Int'l, Ltd. v. Hitachi Ltd.</i> , 141 F.R.D. 281 (C.D Cal. 1991) .....	18
<i>Townsend v. Holman Consulting Corp.</i> , 929 F.2d 1358 (9th Cir. 1990) (en banc) .....	10, 11

1	<i>View Eng’g Inc. v. Robotic Vision Sys.,</i>	
2	208 F.3d 981 (Fed. Cir. 2000).....	11, 15, 18
3	<i>Warner-Jenkinson Co., Inc. v. Hilton Davis Corp.,</i>	
4	520 U.S. 17 (1997).....	12
5	<b>FEDERAL STATUTES</b>	
6	28 U.S.C. § 1498(a) .....	13
7	35 U.S.C. § 102 .....	3, 8
8	35 U.S.C. § 112 ¶ 4.....	4
9	39 U.S.C. § 101 .....	14
10	<b>RULES</b>	
11	Fed. R. Civ. P. 11.....	passim
12	Fed. R. Civ. P. 19.....	13, 14
13		
14		
15		
16		
17		
18		
19		
20		
21		
22		
23		
24		
25		
26		
27		
28		

## MEMORANDUM OF POINTS AND AUTHORITIES

### **I. INTRODUCTION**

Pursuant to Rule 11 of the Federal Rules of Civil Procedure, Defendants Microdynamics Corporation and Microdynamics Group, Inc. (together, “Microdynamics”)<sup>1</sup> hereby submit<sup>2</sup> this motion for sanctions.

Plaintiff Secured Mail Solutions, LLC (“SMS”) and its counsel have asserted that Microdynamics infringes three patents which share the same specification.<sup>3</sup> SMS avers in its Complaint that these patents are directed to the field of “counter terrorism” and can “reduce[] the risk of [a] terrorist attack.” Complaint ¶ 9; First Amended Complaint (“FAC”) ¶ 14. Thus, in bringing this action, SMS was clearly focused on the feature of its invention requiring verifying the authenticity of a piece of mail, as part of its allegedly novel solution to the stated problem of preventing

---

<sup>1</sup> Plaintiff SMS’ original and amended complaints erroneously name Microdynamics, Inc. as a defendant. Microdynamics believes SMS intended to identify Microdynamics Group, Inc. *See, e.g.*, [www.microdg.com/about-us.html](http://www.microdg.com/about-us.html) (last visited Sept. 5, 2012).

<sup>2</sup> Microdynamics has complied with its obligation under Federal Rule of Civil Procedure 11(c)(2) by serving a substantially similar copy of this motion on Plaintiff on August 8, 2012, more than 21 days prior to filing. *See* Certificate of Service, attached hereto as Exhibit A. After a meet and confer regarding the motion, Plaintiff filed a First Amended Complaint, which deleted incorrect references to Microdynamics as a “provider of direct mail services.” Microdynamics has revised this motion accordingly, in addition to making minor edits. No new substance has been added. Other than deleting reference to Microdynamics as a provider of direct mail services, SMS’ First Amended Complaint failed to address any of the issues raised in Microdynamics’ motion. Attached as Exhibit B is a redline comparing the copy of this motion served on Plaintiff on August 8, 2012 and the motion as filed with the Court.

<sup>3</sup> SMS did not specifically identify which claims of the Asserted Patents are being asserted nor which of Microdynamics’ services or systems allegedly infringe. For purposes of this motion, as explained below, we assume all claims are asserted against Microdynamics’ USPS mail related services.

1 unauthenticated and potentially “hazardous mail objects (i.e., Anthrax, explosives,  
2 etc.)” from being delivered to the intended recipient. *See* Exhibit 1 to the  
3 Complaint and FAC at 1:34-38, 5:63-6:19.

4       However, SMS and its counsel violated Rule 11 by filing a baseless  
5 Complaint and by failing to conduct a reasonable and competent pre-suit  
6 investigation in doing so. A reasonable investigation would have revealed that  
7 Microdynamics provides various services to facilitate delivery of its customers’  
8 mail pieces through the United States Postal Service (“USPS”), but **does not offer**  
9 any service for verifying the authenticity of a mail piece.<sup>4</sup> Such an investigation  
10 would have shown that Microdynamics fully complies with USPS’ guidelines and  
11 requirements to use USPS’ mail delivery services, and a competent review of  
12 USPS’ guidelines and requirements and available delivery services would have  
13 revealed that USPS also **does not provide** any verification of the authenticity of a  
14 mail object. Furthermore, a reasonable and competent investigation would have  
15 shown that USPS and other mail carriers have an interest in this action that make  
16 them necessary and indispensable parties to SMS’ infringement claims in this case.

17       Had SMS and its counsel bothered to review any of the significant amounts  
18 of publicly available information about Microdynamics and USPS (or other mail  
19 carriers) or perform a cursory analysis of the claims of the Asserted Patents before  
20 filing the Complaint, then they would know that no patent claim<sup>5</sup> could be infringed  
21 by Microdynamics, and would not have filed this action.

---

22  
23 <sup>4</sup> To a far lesser extent Microdynamics also uses United Parcel Service, FedEx,  
24 Pitney Bowes - IMEX, and couriers for delivery of its customers’ mail. As will be  
25 shown below, SMS’ claims are even further removed from the situation where  
Microdynamics uses one of these mail carriers rather than USPS.

26 <sup>5</sup> A competent review of USPS’ available delivery services would have revealed  
27 that since before 1999, more than one year prior to the earliest filing date of the  
28 asserted patents, USPS has provided a prior art mail piece tracking service called  
Confirm, aka Tracing, using single barcodes, in particular, the Planet Code. *See*

What makes this frivolous case all the more remarkable is that the named inventor, Todd E. Fitzsimmons, is and, at all relevant times, has been an experienced patent prosecution and litigation attorney with Plaintiff's counsel, O'Melveny & Myers LLP. Declaration of Charles Wilson ("Wilson Decl.") ¶ 12, Exh. 1. Mr. Fitzsimmons also appears to be the sole principal of Plaintiff. *Id.* ¶ 13, Exh. 2. Thus, charged with knowledge of Rule 11 and its stringent requirements, the flagrant violation of Rule 11 in commencing this action for hold-up patent royalties is inexcusable and should neither be tolerated nor excused.

## **II. BACKGROUND**

SMS filed the present action against Microdynamics and R.R. Donnelley & Sons Company on July 9, 2012. SMS and Microdynamics stipulated to extend Microdynamics' time to answer or otherwise respond to the Complaint to August 31, 2012. *See* Dkt. No. 12. SMS alleges that Microdynamics infringes the patents-in-suit, U.S. Patent Nos. 7,814,032 ("032 Patent"), 7,818,268 ("268 Patent"), and 8,073,787 ("787 Patent") (collectively, "Asserted Patents"), attached to the Complaint and FAC as Exhibits 1, 2, and 3, respectively. SMS and Microdynamics are not competitors and SMS's website does not indicate that it offers any product or service related to the Asserted Patents, or otherwise, except for the mere statement: "Provider of Custom Mail and Mail Information Services." *See* [www.securedmailsolutions.com](http://www.securedmailsolutions.com) (last accessed August 7, 2012).

---

Wilson Decl. ¶ 17, Exh. 6. Thus, to the extent that SMS or its counsel construes any patent claim to read on the use of barcodes in providing mail tracking services, that construction is not reasonable because it would invalidate those claims of the Asserted Patents under 35 U.S.C. § 102 and/or 103.



1           **A. The Asserted Patents**

2           The Asserted Patents are related and share the same specification.<sup>6</sup> The  
3 claimed invention “provides a system and method for providing mail verification  
4 data over a wide area network, such as the Internet, in response to receiving and  
5 authenticating at least a portion of mail identification (ID) data.” ’787 Patent at  
6 1:63-66. Put simply, the claimed invention is about verifying the authenticity of a  
7 piece of mail (*i.e.*, determining that the mail was actually sent by the indicated  
8 sender) by comparing information encoded in a single barcode on the piece of mail  
9 to the sender’s records of sent mail. Claim 1 of the ’032 Patent is generally  
10 representative of the claims of the Asserted Patents and provides:

11           A method for using a single barcode to verify the authenticity of and  
12           identify a sender of a physical mail object that is being sent from  
13           said sender to a recipient via a mail carrier, comprising:  
14           a sender of a physical mail object generating a unique identifier. . . ;  
15           encoding at least said unique identifier, sender data and recipient data  
16           into a single barcode. . . ;  
17           storing at least a portion of said encoded data in a database, said  
18           portion comprising at least said unique identifier, said sender data  
19           and said recipient data;  
20           printing said single barcode on said physical mail object;  
21           **submitting said physical mail object to a postal carrier;**  
22           **scanning by a scanner said single barcode to acquire said encoded**  
23           **data;**

24  
25           

---

  
26           <sup>6</sup> The applications that led to the ’032 Patent and ’787 Patent were continuations of  
27           the application that led to the ’268 Patent. Because the Asserted Patents share the  
28           same specification, citations to the specification in this brief will be to the ’787  
          Patent only for simplification.

1 and comparing by a computer at least a portion of said encoded  
 2 data to data stored in said database to verify the authenticity of  
 3 said physical mail object, wherein said at least a portion of said  
 4 encoded data . . . can be used by said postal carrier to identify said  
 5 sender of said physical mail object.

6 This representative claim demonstrates two general limitations required in  
 7 the claims of the Asserted Patents. Indeed, one or both of these requirements are  
 8 contained in every claim of the Asserted Patents. Specifically:

9 1) **Verification data.** All of the independent claims<sup>7</sup> require (explicitly or  
 10 implicitly) that the sender either transmit “verification data”<sup>8</sup> or “verifying data”<sup>9</sup>  
 11 over a network or provide access to data “stored in a database.”<sup>10</sup> For example, in  
 12 claim 1 of the ’032 Patent quoted above, the sender must implicitly provide access  
 13 to its database “storing at least a portion of said encoded data.” As another  
 14 example, claim 1 of the ’268 patent explicitly requires the sender to provide  
 15 “verification data via [a] network” when the data received from the mail service  
 16 matches the sender’s records. For ease of reference, this general requirement of the  
 17 invention will be referred to as “verification data.”

18  
 19 \_\_\_\_\_  
 20 <sup>7</sup> Because dependent claims only further limit the scope of independent claims, the  
 21 dependent claims of the Asserted Patents are similarly limited. *See* 35 U.S.C. § 112  
 22 ¶ 4. Therefore, we need only discuss the independent claims of the Asserted  
 Patents here.

23 <sup>8</sup> As required by all of the independent claims of the ’268 Patent (claims 1, 18, and  
 24 33).

25 <sup>9</sup> As required by three of the five independent claims of the ’787 Patent (claims 1,  
 26 17, and 30).

27 <sup>10</sup> As required by all of the independent claims of the ’032 Patent (claims 1 and 13)  
 28 and the remaining two independent claims of the ’787 Patent (claims 41 and 50).

2) ***Mail carrier action.*** The limitations of certain claims<sup>11</sup> cover the actions of the mail carrier, *i.e.*, the person who actually delivers the mail to the intended recipient, not the person, such as Microdynamics, who presents the mail to the mail carrier for delivery. These actions include scanning barcodes, requesting verification data, comparing verification data, and/or routing mail. Here, for example, in claim 1 of the '032 Patent, the "postal carrier" scans mail and compares the scanned information to information stored on the "sender's" database. Further, some limitations of certain claims<sup>12</sup> appear to cover systems of the mail carrier, such as a scanner that scans printed mail identification data on a mail piece and a computer that transmits such data. For ease of reference, these general requirements will be referred to simply as "mail carrier action."

#### **B. Microdynamics' Business**

Microdynamics provides transactional mail services (*i.e.*, mail related to a specific transaction or occurrence) to its clients, such as credit card statements on behalf of a bank. *See* Wilson Decl. ¶ 3.<sup>13</sup> To do this cost effectively, Microdynamics employs the available barcode mailing standards promulgated by USPS, namely, POSTNET, Planet Code, and Intelligent Mail Barcode ("IMb"), because USPS provides discounted mailing rates when such barcodes are used. *See* Wilson Decl. ¶ 4.

IMb is the newest of the three USPS barcode standards, and essentially combines the data in the POSTNET and Planet Code barcodes, in addition to other data. *See* Wilson Decl. ¶ 14, Exh. 3. Because IMb includes all of the information

---

<sup>11</sup> Specifically, at least independent claims: 18 of the '268 Patent; 1 and 13 of the '032 Patent; 17 and 41 of the '787 Patent.

<sup>12</sup> Specifically, at least independent claims 1 and 50 of the '787 Patent.

<sup>13</sup> The distinction between direct mail and transactional mail is also described on Microdynamics' website. *See* [www.microdg.com/services/design.html](http://www.microdg.com/services/design.html) (last visited August 7, 2012).

that POSTNET and Planet Code barcodes provide, this motion will generally refer to IMb unless otherwise specified. An example of the IMb barcode is displayed below:



*See id.* The IMb codes for 31 digits of data as shown in the table below:

Type	Field	Field Length (in digits)
Tracking Code	Barcode Identifier	2 (2nd digit must be 0-4)
	Service Type Identifier	3
	Mailer Identifier	6 or 9
	Serial Number	9 (when used with 6 digit Mailer ID) 6 (when used with 9 digit Mailer ID)
Routing Code	Delivery Point ZIP Code™	0, 5, 9, or 11
<b>Total Data Payload</b>		<b>31 (maximum)</b>

*See* Wilson Decl. ¶ 15, Exh. 4, at p. 7. For reference, a detailed description of each of the fields making up the tracking and routing codes is available on page 4 of the Intelligent Mail Barcode Technical Resource Guide. Wilson Decl. ¶ 15, Exh. 4.

The vast majority of the mail that Microdynamics processes for its customers is presented to USPS for delivery. Wilson Decl. ¶ 5. For a small percentage of that mail, Microdynamics utilizes USPS' Confirm, aka Tracing, service, which is an additional cost mailing option that provides certain limited tracking data to Microdynamics. *Id.* Microdynamics selects the Confirm tracking service by appropriately coding the IMb in the "Service Type Identifier" field. *Id.*; *see also* Wilson Decl. ¶ 15, Exh. 4, at p. 4. As mail makes its way from one USPS facility

1 to another, it may be scanned at the different facilities and USPS records the  
2 “processing location, sort operation, date/time, and barcode digits.” *See* Wilson  
3 Decl. ¶ 16, Exh. 5, at p. 5. This information is subsequently provided to  
4 Microdynamics “via scheduled file transfer” or Microdynamics may “download the  
5 data from the [USPS] Mail Tracking and Reporting website. . . .” *Id.*; *see also id.* at  
6 20; Wilson Decl. ¶ 6. In connection with using USPS’ Confirm tracking service,  
7 Microdynamics does not provide to USPS any verification data by sending such  
8 data to USPS directly, by providing access to a database, or otherwise. Wilson  
9 Decl. ¶ 6.

10 For the majority of the mail that Microdynamics processes for delivery by  
11 USPS, Microdynamics does not utilize USPS’ Confirm (or any other) tracking  
12 service. *Id.* ¶ 7. For this untracked mail, Microdynamics neither receives from nor  
13 provides to USPS any information related to the IMb (or any barcode), much less  
14 any verification data. *Id.*

15 For both tracked and untracked mail, the fact that Microdynamics does not  
16 provide verification data is plainly evident upon a review of the publicly available  
17 USPS documents. Further, no USPS documents concerning its services,  
18 specifications, standards, or the like discuss providing verification data to USPS in  
19 connection with any barcoded mail piece. There is a simple, unambiguous reason  
20 for this: USPS simply does not verify the authenticity of mail. Neither does  
21 Microdynamics.

22 USPS has offered its Confirm tracking service since at least 1999. *See*  
23 Wilson Decl. ¶ 17, Exh. 6. Indeed, Microdynamics uses software designed to be  
24 used with Confirm that was originally developed in 1998. Wilson Decl. ¶¶ 2, 5.  
25 This predates the filing date of SMS’ patent applications by more than one year.  
26 *See* 35 U.S.C. § 102(b). Predecessors to Microdynamics have used USPS’ Confirm  
27 tracking service since at least 1999, and Microdynamics has used the Confirm  
28 tracking service, in conjunction with the Planet Code barcode, since about January

1 2008. Wilson Decl. ¶ 5. Since June 2010, Microdynamics has been using the  
2 Confirm tracking service in conjunction with the IMb. *Id.* The POSTNET barcode  
3 does not have any tracking capability. *Id.*

4 In addition to USPS, but to a far lesser extent, Microdynamics uses United  
5 Parcel Service (“UPS”), FedEx, Pitney Bowes – IMEX (“IMEX”), and couriers for  
6 delivery of its customers’ mail. Wilson Decl. ¶ 9. However, SMS’ infringement  
7 claims are even weaker still with respect to Microdynamics’ use of these mail  
8 carriers.

9 For UPS and FedEx, Microdynamics uses UPS and FedEx supplied machines  
10 and software to generate and print any barcode used for tracking or otherwise uses  
11 hand-written mailing forms with pre-printed barcodes. Wilson Decl. ¶ 10. Thus,  
12 the UPS and FedEx barcodes, and any portions thereof, are not generated by the  
13 sender or mailer, as all of the claims of the Asserted Patents require, but rather the  
14 mail delivery service. As with USPS, Microdynamics does not provide to FedEx or  
15 UPS any verification data by sending such data directly to them, by providing  
16 access to a Microdynamics database, or otherwise. *Id.* At most, Microdynamics  
17 inputs tracking numbers on UPS’ and FedEx’s websites to receive limited tracking  
18 information for packages if there is a delivery issue, just as any individual person or  
19 Microdynamics customer would. *Id.*

20 For couriers and IMEX, Microdynamics does not even send “mail objects,”  
21 as the claims require, but rather delivers boxes of letters to a courier or IMEX to be  
22 transported to foreign countries. *Id.* ¶ 11. Once there, the letters in bulk are  
23 delivered by those countries’ mail carriers. *Id.* While some of the letters may have  
24 IMb barcodes printed on them by Microdynamics, those barcodes are never  
25 scanned or tracked by Microdynamics, USPS, UPS, FedEx, IMEX, or couriers. *Id.*  
26 Accordingly, Microdynamics will focus on USPS in this motion, as it assumes that  
27 SMS is in actuality seeking reasonable royalty damages for alleged infringement by  
28

Microdynamics use of USPS' services and compliance with USPS' specifications and regulations, the other carriers alleged infringement being *de minimis*.

### III. RULE 11 LAW AS APPLIED IN PATENT ACTIONS

Federal Rule of Civil Procedure 11(b)(3) provides that:

By presenting to the court a pleading, written motion, or other paper . . . an attorney . . . certifies that to the best of the person's knowledge, information, and belief, formed after an inquiry reasonable under the circumstances: . . .

(3) the factual contentions have evidentiary support or, if specifically so identified, will likely have evidentiary support after a reasonable opportunity for further investigation or discovery . . . .

Rule 11(c)(1) further provides:

If . . . the court determines that Rule 11(b) has been violated, the court may impose an appropriate sanction on any attorney, law firm, or party that violated the rule or is responsible for the violation.

The Court of Appeals for the Federal Circuit applies "the law of the regional circuit . . . to review an award of Rule 11 sanctions." *Eon-Net LP v. Flagstar Bancorp*, 653 F.3d 1314, 1328 (Fed. Cir. 2011). Under Ninth Circuit law, "[w]here, as here, the complaint is the primary focus of Rule 11 proceedings, a district court must conduct a two-prong inquiry to determine (1) whether the complaint is legally or factually 'baseless' from an objective perspective, and (2) if the attorney has conducted 'a reasonable and competent inquiry' before signing and filing it." *Christian v. Mattel, Inc.*, 286 F.3d 1118, 1127 (9th Cir. 2002); *see also Townsend v. Holman Consulting Corp.*, 929 F.2d 1358, 1362 (9th Cir. 1990) (en banc) ("sanctions must be imposed on the signer of a paper if . . . the paper is 'frivolous,'" which is when it is "both baseless and made without a reasonable and competent inquiry.").



1 In the context of a patent infringement suit, the Federal Circuit has held that a  
 2 reasonable and competent inquiry under Rule 11 “require[s] the law firm to, at a  
 3 bare minimum, apply the claims of each and every patent that is being brought into  
 4 the lawsuit to an accused device and conclude that there is a reasonable basis for a  
 5 finding of infringement of at least one claim of each patent so asserted.” *View*  
 6 *Eng’g Inc. v. Robotic Vision Sys.*, 208 F.3d 981, 986 (Fed. Cir. 2000) (applying  
 7 Ninth Circuit law). The plaintiff, as the party “asserting the claim [of infringement]  
 8 bears the burden[ ] of showing that its inquiry was reasonable and competent.” *ICU*  
 9 *Med., Inc. v. Alaris Med. Sys., Inc.*, 2007 U.S. Dist. LEXIS 34467 (C.D. Cal. Apr.  
 10 16, 2007) (citing *View Eng’g*, 208 F.3d at 986), *aff’d*, 558 F.3d 1368, 1381 (Fed.  
 11 Cir. 2009). Failure to “demonstrate to both the court and the alleged infringer  
 12 exactly why it believed before filing the claim that it had a reasonable chance of  
 13 proving infringement . . . should ordinarily result in the district court expressing its  
 14 broad discretion in favor of Rule 11 sanctions. . . .” *View Eng’g*, 208 F.3d at 986.

#### 15 **IV. ARGUMENT**

##### 16 **A. SMS, its Counsel, and Mr. Fitzsimmons Failed To Meet Their** 17 **Rule 11 Obligations**

18 Under Ninth Circuit law, Rule 11 is violated when a complaint is:  
 19 1) objectively baseless; and 2) filed without the attorney making a reasonable and  
 20 competent inquiry. *See Christian*, 286 F.3d at 1127; *Townsend*, 929 F.2d at 1362.  
 21 Here, it is clear from the facts that SMS’ claims of infringement are baseless and  
 22 SMS and its counsel filed the complaint without conducting a reasonable pre-suit  
 23 investigation.

##### 24 **1. SMS’ Complaint is Baseless**

25 As explained above in Section II.A., all of the claims of the Asserted Patents  
 26 contain the verification data requirement and many of the claims also contain the  
 27 mail carrier action requirement. Flowing from these two requirements, it becomes  
 28 clear that SMS’ Complaint is objectively baseless for at least three reasons. First,



1 Microdynamics cannot infringe because it does not provide verification data to or  
2 receive it from USPS. Second, certain claims further require mail carrier action,  
3 which action is either not performed at all or not performed by Microdynamics.  
4 Third, USPS (and any other alleged infringing mail carrier) is a necessary party to  
5 this case. These are addressed in turn below.

6 **a. Microdynamics Does Not Provide Verification Data**

7 Infringement “requires, as it always has, a showing that a defendant has  
8 practiced each and every element of the claimed invention.” *BMC Resources, Inc.*  
9 *v. Paymentech, L.P.*, 498 F.3d 1373, 1380 (Fed. Cir. 2007) (citing *Warner-*  
10 *Jenkinson Co., Inc. v. Hilton Davis Corp.*, 520 U.S. 17, 40 (1997)), overruled on  
11 other grounds by *Akamai Techs., Inc. v. Limelight Networks, Inc.*, No. 2009-1372,  
12 \_\_\_ F.3d \_\_\_, 2012 WL 3764695, at \*1, \*3 (Fed. Cir. Aug. 31, 2012).

13 Each of the claims of the Asserted Patents have a verification data  
14 requirement, which is that the sender either transmit “verification data” over a  
15 network or provide access to data “stored in a database” for the purpose of  
16 verifying the authenticity of mail. Microdynamics does not transmit any such  
17 verification data and does not provide the USPS with access to its database.  
18 Indeed, neither Microdynamics nor USPS has any service for verifying the  
19 authenticity of mail.

20 To the extent that SMS alleges that Microdynamics’ use of USPS’ Confirm  
21 tracking service infringes, that claim must fail because USPS’ Confirm tracking  
22 service involves only a one way transmission of tracking data—from USPS to  
23 Microdynamics—and then merely provides the time, date, and location of the mail  
24 sorting facility at which a particular piece of mail is scanned. This Court should  
25 take judicial notice of this fact. *See* Wilson Decl. ¶ 16, Exh. 5, at pp. 5, 20.

26 Accordingly, under any reasonable reading of the claims, Microdynamics  
27 does not infringe.  
28

**b. Other Limitations are Mail Carrier Actions or Not Performed At All**

In addition to verification data, many of the claims further require that other limitations be performed by the postal carrier, USPS. These mail carrier action limitations include scanning barcodes, requesting verification data, comparing verification data, and/or routing mail based on whether the mail is verified. These limitations are either not performed at all (*e.g.*, requesting and comparing verification data) or are performed by USPS, and not Microdynamics (*e.g.*, scanning barcodes and routing mail). Thus, Microdynamics does not infringe such claims for this additional, independent reason.<sup>14</sup>

**c. The Mail Carriers are Persons That Must Be Joined if Possible**

The mail carriers, including at least USPS, are necessary parties under Federal Rule of Civil Procedure 19(a)(1)(B), which provides that a person must be joined if feasible if “that person claims an interest relating to the subject of the action and is so situated that disposing of the action in the person's absence may . . . as a practical matter impair or impede the person’s ability to protect the interest . . . .” “The inquiry is a practical, fact-specific one, designed to avoid the harsh results of rigid application.” *Dawavendewa v. Salt River Project Agricultural Improvement & Power Dist.*, 276 F.3d 1150, 1154 (9th Cir. 2001). For example, USPS has numerous interests that relate to the subject of this action and its absence

---

<sup>14</sup> To the extent that SMS may advance a theory of joint infringement, SMS has not pled and cannot reasonably contend that Microdynamics controls or directs the actions of USPS (or any other mail carrier). *See BMC Resources*, 498 F.3d at 1380-81, overruled on other grounds by *Akamai*, 2012 WL 3764695, at \*1, \*3. Indeed, it is USPS that dictates to Microdynamics what must be included in the barcodes acceptable to USPS. *See, e.g.*, Wilson Decl. ¶ 15, Exh. 4.

1 would impair or impede its ability to protect those interests, including at least the  
2 following.<sup>15</sup>

3 First, as explained above, whether Microdynamics infringes the Asserted  
4 Patents apparently turns on whether it adheres to barcode standards and  
5 specifications dictated by USPS and whether use of USPS' commercial mail and  
6 tracking services infringes. Accordingly, USPS, as a "public entity," has "an  
7 interest in a lawsuit that could result in the invalidation or modification of one of its  
8 ordinances, rules, regulations, or practices." *E.E.O.C. v. Peabody Western Coal*  
9 *Co.*, 610 F.3d 1070, 1082 (9th Cir. 2010) ("The Secretary thus has an interest in an  
10 action that would require him to modify the terms of leases he approves . . . [and]  
11 therefore qualifies as a person to be joined under Rule 19(a)(1)(B)(i).")

12 Second, as a government corporation, USPS contracts with Microdynamics  
13 and the public to accept and deliver mail and provide mail tracking information  
14 based on terms and conditions, including published rate schedules. *See, e.g.*, 39  
15 U.S.C. § 101. It is settled that "a party to a contract is necessary, and if not  
16 susceptible to joinder, indispensable to litigation seeking to decimate that contract."  
17 *Dawavendewa*, 276 F.3d at 1157.

18 Third, because many of the claim limitations require mail carrier action, it  
19 appears that a determination of whether Microdynamics infringes the Asserted  
20

---

21 <sup>15</sup> Further, if a necessary party cannot be joined, then a court must determine  
22 "whether the party is indispensable such that in 'equity and good conscience' the  
23 suit should be dismissed." *Dawavendewa*, 276 F.3d at 1155; *see also* Fed. R. Civ.  
24 P. 19(b). Pursuant to 28 U.S.C. § 1498(a), USPS cannot be joined because patent  
25 infringement claims against the United States, including USPS, must proceed in the  
26 Court of Federal Claims. *See, e.g., Marshburn v. Postmaster General*, 678 F. Supp.  
27 1182 (D. Md. 1988) (dismissing copyright claim against USPS because district  
28 court did not have jurisdiction). Microdynamics submits that USPS is indispensable  
and, thus, this action cannot be maintained, should never have been filed, and must  
be dismissed. Microdynamics hereby reserves its right to move to dismiss on this  
basis.

1 Patents requires a determination of whether certain claim limitations are performed  
2 or provided by USPS. *See* Section IV.A.1.b, *supra*.

3 Fourth, SMS seeks to permanently enjoin Microdynamics and “those acting  
4 in privity” with it from further infringement. Complaint, Prayer for Relief; FAC,  
5 Prayer for Relief. The scope of SMS’ requested injunction would necessarily reach  
6 USPS, giving it a strong (public) interest in this action.

7 Fifth, USPS has business interests in providing tracking services to  
8 Microdynamics, its competitors, and, at bottom, all persons that send tracked mail  
9 using any USPS required barcode, *e.g.*, the IMb.

10 All but the first element above applies equally to the mail carriers other than  
11 USPS.

## 12 **2. SMS and its Counsel Failed to Conduct a Reasonable and** 13 **Competent Pre-Suit Investigation**

14 Failure to do any pre-suit investigation is, of course, not competent or  
15 reasonable. *See Judin v. United States*, 110 F.3d 780, 784 (Fed. Cir. 1997) (mere  
16 observation of “the accused device from a distance while it was in use at a post  
17 office” and nothing more violates Rule 11). The Federal Circuit has held that, at a  
18 minimum, a reasonable and competent investigation requires the plaintiff’s counsel  
19 to conduct an infringement analysis by applying the claims to the accused system or  
20 method. *View Eng’r*, 208 F.3d at 986. This “also requires counsel to perform an  
21 objective evaluation of the claim terms . . . .” *Eon-Net*, 653 F.3d at 1328; *see also*  
22 *ICU*, 2007 U.S. Dist. LEXIS 14855, at \*50. Here, it cannot be disputed that,  
23 objectively, SMS and its counsel failed to perform a reasonable and competent  
24 investigation.

25 Among the numerous, simple things that SMS and/or Mr. Fitzsimmons could  
26 have done to investigate Microdynamics’ systems and services, are the following:

- 27 • review Microdynamics’ website, [www.microdynamics.com](http://www.microdynamics.com);

- 1 • contact Microdynamics to inquire about its mail processing and any service
- 2 for verifying the authenticity of mail;
- 3 • use or attempt to use Microdynamics' services to send fraudulent mail to
- 4 determine whether mail was verified as authentic and delivered or not;
- 5 • review publicly available documents on USPS' websites, including
- 6 ribbs.usps.gov, regarding whether USPS has any mail delivery service for
- 7 verifying the authenticity of mail, in addition to its mail tracking services;
- 8 • contact USPS to inquire about any service for verifying the authenticity of
- 9 mail and whether it requests or receives verification data; and
- 10 • use or attempt to use USPS' services to send fraudulent mail to determine
- 11 whether mail was verified as authentic and delivered or not.

12 Performing any one of these tasks would have shown that neither Microdynamics  
 13 alone, nor together with USPS, offers any service to verify the authenticity of mail  
 14 for delivery, and Microdynamics does not provide, request, or receive verification  
 15 data and thus cannot infringe as explained in Section IV.A.1.a., *supra*.

16 Further, any reasonable investigation into the claims of the Asserted Patents  
 17 would have shown that USPS is a necessary party because its interests are directly  
 18 affected by this litigation. *See Clark v. The Walt Disney Co.*, 748 F. Supp.2d 792,  
 19 802 (S.D. Oh. 2010) (holding that filing a patent infringement complaint without  
 20 naming necessary party violates Rule 11). Thus, objectively, SMS and its counsel  
 21 could not have reasonably investigated Microdynamics' available systems and  
 22 services and its reliance on USPS requirements and services and in good faith filed  
 23 the instant Complaint.

24 SMS' and its counsel's pre-suit investigation also was unreasonable because  
 25 the Federal Circuit requires that a plaintiff reasonably construe claim terms and  
 26 reasonably apply the facts to the claims.<sup>16</sup> SMS' Complaint proffers no evidence

---

27 <sup>16</sup> Claim construction is an issue of law "exclusively within the province of the  
 28 court," not the jury. *Markman v. Westview Instruments, Inc.*, 517 U.S. 370, 373

1 that a reasonable construction was made or the claims as construed were compared  
2 to any Microdynamics accused product or process—indeed no product is even  
3 identified in the Complaint. Instructive here is *Eon-Net*, where the Federal Circuit,  
4 applying Ninth Circuit law, affirmed an award of sanctions under Rule 11 where  
5 the plaintiffs conducted an inadequate pre-suit investigation. There, the plaintiff  
6 claimed that the processing of information electronically entered by customers on  
7 the defendant’s website infringed its patents. *Eon-Net*, 653 F. 3d at 1318-19. Its  
8 patents, however, related to extracting information from hardcopy documents and  
9 manipulating the information for input into computer applications. *Id.* Counsel for  
10 Eon-Net conducted some pre-suit investigation by comparing Flagstar’s website  
11 and publicly-available source code to each limitation of the asserted claims. *Id.* at  
12 1328. However, the Federal Circuit held that Eon-Net failed to reasonably construe  
13 its claims when performing its infringement analysis. *Id.* at 1329.

14 Similar to *Eon-Net*, any claim construction or infringement analysis  
15 performed by SMS or its counsel was unreasonable. For example, all of the claims  
16 require verification data, which Microdynamics does not have, provide or use.  
17 Thus, SMS and its counsel would have to read this limitation out of every claim for  
18 Microdynamics to infringe. This is not objectively reasonable.

19 In light of the foregoing, SMS and its counsel cannot establish that they  
20 conducted a reasonable and competent pre-suit investigation, and sanctions are  
21 warranted.

## 22 **B. Monetary Sanctions Should Be Imposed**

23 Federal Rule of Civil Procedure 11(c)(4) provides that the Court may impose  
24 appropriate sanctions limited by “what suffices to deter repetition of the conduct or  
25 comparable conduct by others similarly situated,” and may include “nonmonetary  
26 \_\_\_\_\_  
27 (1996). Determination of infringement is a two step process that first requires  
28 construction of the claims and then application of the claims to the accused product  
or process. *See id.* at 373.

1 directives. . . or, if imposed on motion and warranted for effective deterrence, an  
2 order directing payment to the movant of part or all of the reasonable attorney's  
3 fees and other expenses directly resulting from the violation."

4 SMS, its principal, and their counsel—all experienced patent litigators—must  
5 be held accountable for intentionally burdening Microdynamics and this Court with  
6 accusations that have no factual support and are undermined by a reasonable and  
7 competent pre-suit investigation involving public information. Further, this is the  
8 third such action filed by SMS and its counsel in August 2012 in this Court, with  
9 each Complaint being nearly identical, save for the named defendants.<sup>17</sup> The  
10 misconduct of SMS, its principal, and counsel will likely continue if not deterred.

11 This Court should exercise its discretion to award Microdynamics its  
12 reasonable expenses, including attorneys' fees, incurred from the filing of the  
13 Complaint through the filing of the sanctions papers. *See* Fed. R. Civ. P. 11(c)(4);  
14 *Refac Int'l, Ltd. v. Hitachi Ltd.*, 141 F.R.D. 281 (C.D. Cal. 1991) (awarding  
15 expenses including attorneys fees from filing of the complaint through claims for  
16 sanctions). In upholding such sanctions, the Federal Circuit has recognized that  
17 "[a] patent suit can be an expensive proposition. Defending against baseless claims  
18 of infringement subjects the alleged infringer to undue costs – precisely the  
19 scenario Rule 11 contemplates. Performing a pre-filing assessment of the basis of  
20 each infringement claim is, therefore, extremely important." *View Eng'g*, 208 F.3d  
21 at 986.

22 Every year, this Court is inundated with new complaints for patent  
23 infringement. In the prior five years, an average of 260 patent lawsuits per year  
24 were filed in this Court and, so far this year, 215 patent lawsuits have already been  
25

---

26 <sup>17</sup> The other two cases filed by SMS are *Secured Mail Solutions v. Advanced Image*  
27 *Direct, LLC, et al.*, Case No. SACV12-01090 DOC (MLGx) and *Secured Mail*  
28 *Solutions v. Harte-Hanks, Inc., et al.*, Case No. SACV12-01118 DOC (MLGx).



1 filed.<sup>18</sup> Imposition of monetary sanctions on Plaintiff, its counsel, and/or Mr.  
 2 Fitzsimmons will send a clear message that patentees may not engage in economic  
 3 blackmail simply by getting patents and filing a frivolous patent litigation.

#### 4 5 **V. CONCLUSION**

6 For the foregoing reasons, Microdynamics respectfully requests the Court to:  
 7 (1) award Microdynamics its attorneys' fees and costs<sup>19</sup> for defending against  
 8 SMS's baseless assertion that Microdynamics infringes the claims of the Asserted  
 9 Patents; and (2) award Microdynamics such other and further relief as the Court  
 10 deems appropriate.

11  
12 Dated: September 7, 2012

Orrick, Herrington & Sutcliffe LLP

13  
14 By: /s/ Ric T. Fukushima  
 15 **RIC T. FUKUSHIMA**  
 16 Attorneys for Defendants  
 Microdynamics Corporation and  
 Microdynamics Group, Inc.

17  
18  
19  
20  
21  
22  
23  
24  
25 \_\_\_\_\_  
 18 <sup>18</sup> Statistics available on lexmachina.com (last visited August 2, 2012).

26  
27 <sup>19</sup> Microdynamics will provide the Court with a calculation of its reasonable  
 28 attorneys' fees and costs for defending against this action at an appropriate time or  
 as otherwise ordered by the Court.